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INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT

JANUARY 2, 1989

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MOVING INTO THE BIG LEAGUES

Bob Gutkowski's got the Yankees

CableVision

INFORMATION AND ANALYSIS FOR CABLE TELEVISION MANAGEMENT JANUARY 2, 1989

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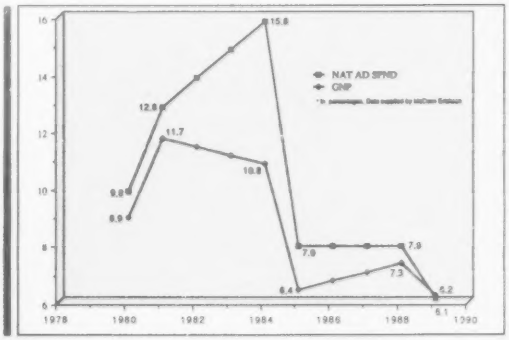

Bad times ahead for the media, with growth in ad spending falling below GNP growth.

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COVER PHOTOGRAPH

With the Yankees batting cleanup, Bob Gutkowski's MSG lineup looks strong.

Photo by Lou Manna

ITCI

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ABP BPA

The pros and cons of cable baseball

CBS Sports exploded cable's fantasy dream when it won the lion's share of baseball's television contract with a $1.1 billion offer for four seasons of exclusive World Series, League Championship Series and 12 regular season games. Sometime this week a contract for four nights of mostly non-exclusive baseball, totalling 150 games, will be awarded to one of four cable programmers: USA Network, ESPN, SportsChannel America or Turner Network Television.

Cable's disappointment comes from not being eligible under Major League Baseball rules for post-season action. Still, to cable programmers the airing of national baseball broadcasts will add prestige to their roster of NFL and NBA games while also supplying programming that carries an inherent promotional value. The downside is that cable baseball won't receive the 10-plus ratings per exposure that ESPN's NFL games have garnered.

Rather, each baseball game might possibly receive ratings of 2.0-2.5. Rich Forester, vice president/director of network programming for Ketchum Communications, doubts even those numbers. He figures that, at most, each cable baseball game will get a 1.5 rating. Baseball, like many other sports, does well with local audiences but not nationally, as the networks have found out.

The bulk of those national exposures will shift to cable, but with no exclusive window for the event. This will further devalue the package, says Forester. Local TV stations and regional sports services will be allowed to run their local games, perhaps with the national cable network blacking out its broadcast in those markets.

Lower ratings don't bother Robert Wussler, TBS senior executive vice president. He sees baseball as an opportunity to grab an established, consistent, highly-promotable product.

David MacDonald, president of NYT Cable, isn't perturbed that cable isn't going to get the playoffs. Cable still needs baseball, he says, because it will offer viewers the convenience of many games and will help expose teams to viewers who watch only their local clubs. "You need more exposure of American and National League teams, and less exposure of local games," he says. As a result, he wouldn't balk at paying an extra surcharge similiar to what operators paid for NFL football on ESPN.

Not everyone agrees that there should be an extra charge for regular season games. John Sie, TCI senior vice president, says there is no specialness with this package, considering the plethora of baseball games already seen on cable over superstations such as WTBS or WGN and on regional sports channels. Therefore, he thinks the cost should be part of a cable network's regular license fee.

From an advertising perspective, Forester thinks at a 1.5 rating, a 30-second spot could be priced at between $4,000 and $6,000. With 55 units per game, a cable network's $6,000 per-spot price would yield revenue of $330,000 a game. For 150 games, that comes out to $49.5 million a year. Therefore, Forester believes cable will pay no more than $50 million a year for baseball, far less than the $75 million to $100 million a year some have been speculating. In addition, $6,000 a thirty is expensive for cable, and there are other, less expensive places for advertisers to find a men's audience. "This baseball (package) isn't going to be special," he says.

—Wayne Friedman

Top Ten Basic Cable Sports Programs December 12-December 18

	Date	Net	Program	Rating	Homes
1.	Dec. 18	ESPN	NFL: Rams-49ers	10.1	5,040,000
2.	Dec. 18	ESPN	SportsCenter (11:30-12 PM)	3.9	1,950,000
3.	Dec. 16	WTBS	NBA: Lakers-Celtics	3.6	1,734,000
4.	Dec. 18	ESPN	NFL Primetime (7-8 PM)	2.9	1,450,000
5.	Dec. 18	ESPN	NFL Gameday (11:30-12 Noon	2.4	1,200,000
6.	Dec. 13	ESPN	Top Rank Boxing: DeCruz-Ward	2.2	1,100,000
7.	Dec. 14	ESPN	CFA: Auburn-Vanderbilt	2.1	1,050,000
8.	Dec. 17	ESPN	NCAA-IAA: Furman-Georgia Southern	1.8	898,000
9.	Dec. 17	ESPN	NFL Primetime	1.8	898,000
10.	Dec. 13	WTBS	NBA: Knicks-Nets	1.6	761,000

An immunity to the media flu

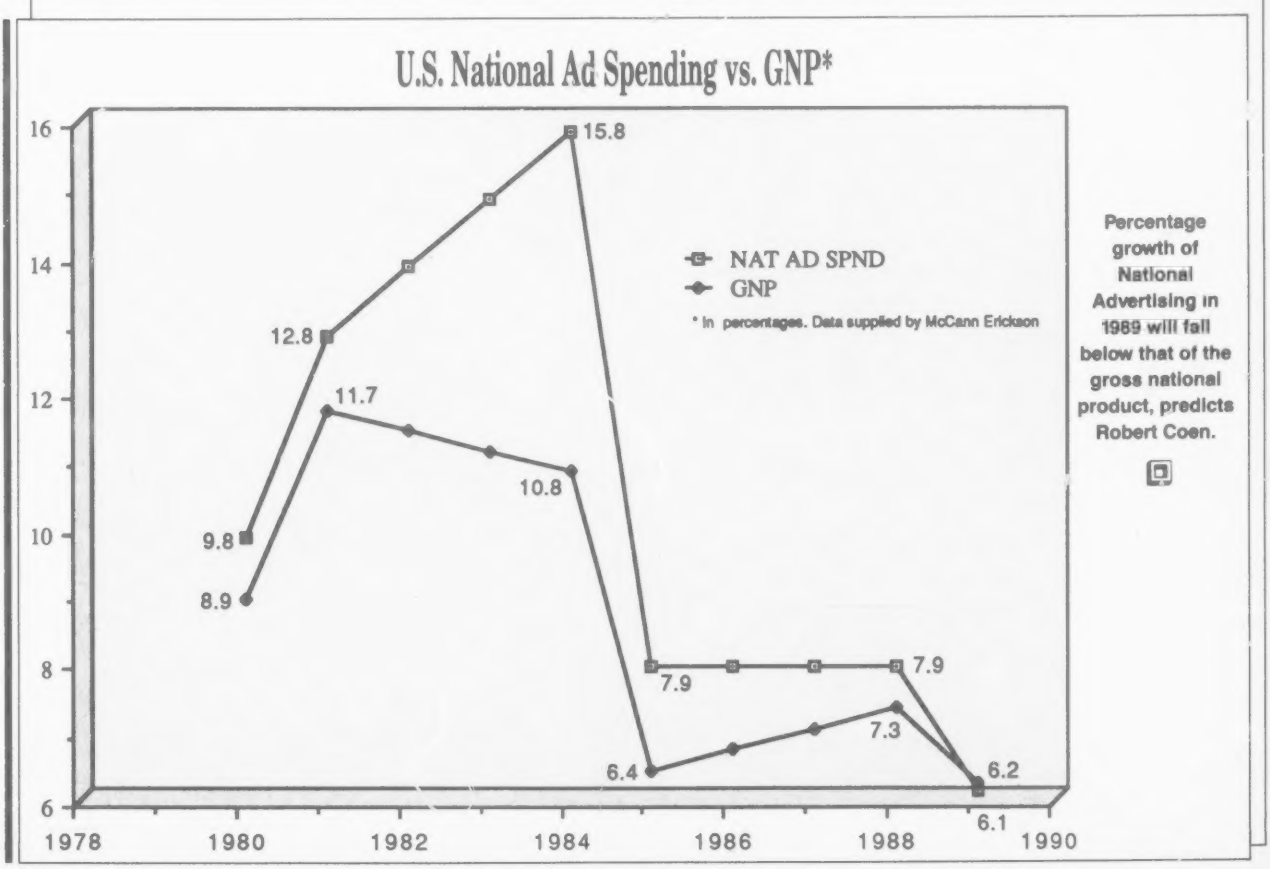
By Virginia Munger Kahn

Despite all the hand-wringing about cable's pending problems with reregulation and the telephone companies, one clear message emerged from PaineWebber's marathon MediaWeek sessions in New York: While most of the media—including broadcasting, newspapers and magazines—continue to confront a testy business environment, cable television's recent and near-term performance has been outstanding.

At the root of cable's success this past year, in contrast to the trials and tribulations experienced by broadcasting and newspapers, is its lack of dependence on advertising. Both broadcasting and newspapers were hit badly this year by a slowdown in advertising spending. Nor are the prospects for next year much better. According to Robert Coen, McCann-Erickson director of forecasting, for the first time in 13 years U.S. advertising growth next year probably will fall below the rate of inflation. Lower than average growth in local advertising markets as a result of retailer retrenchment will not offset the normal letdown in ad spending after an Olympic year, he said.

As a result, national broadcast and print advertising budgets are expected to be almost flat next year. In contrast, cable and syndication are expected to continue to post double-digit growth in advertising, although the numbers are off a smaller base.

"From a revenue standpoint, cable still is eating into the business," said Robert Sutton, president of Media General Broadcast Group, in assessing the broadcasting industry's problems this year. "If they (cable) ever learn to sell local, they will be a big competitor."



The contrast between cable and the rest of the media was best summed up by Richard Simmons, president and chief operating officer of The Washington Post Co., who, in describing the diversified media company's results in 1988, said he was saving the best for last. Cable cash flows at The Post Co. are up 75 percent to $50 million since 1985, while revenues on a per subscriber basis are up to $24.29 per month from $18.81 at the time of the cable system acquisition.

In a presentation kicking off the cable segment, Comcast Vice Chairman Julian Brodsky noted that in general operators have found they can raise rates $1.50 to $2 each year without running into resistance from subscribers. It is important, however, that new or improved services be added to the system, he and others said.

With several firms reporting margin improvements, the continued ability to raise rates with little subscriber resistance, and improved penetration rates, it was not surprising to hear companies like The Washington Post and Knight-Ridder tout their cable holdings and their interest in maintaining or strengthening their positions in the business.

"We won't consider selling cable," said Simmons, in response to a question about the company's willingness to buy and sell assets for the benefit of shareholders. "(Cable) is a good business for The Washington Post," he said.

The comments were in contrast to the decision three months ago by The New York Times Co. to sell its cable assets. Analysts generally attribute that decision to The Times' recognition that it would never be a major player in the business. In contrast, The Washington Post currently serves approximately 400,000 subscribers in its systems, while Knight-Ridder will double its investment in cable to systems representing 500,000 subscribers as a result of its decision to take a percentage of the Storer deal from TCI.

The fundamental strength of the business was revealed in the operating results of several major acquisitions within the past few years. Leonard Tow, president and chief executive officer of Century Communications, noted, for example, that when Century bought into the Group W deal in 1985, it was getting the "dogs" of the deal, three systems in the Los Angeles area.

This notice appears as a matter of record only. November 1988.

AMERICAN TELEVISION & COMMUNICATIONS CORP.

has acquired the cable television systems
serving 2,200 basic subscribers
in the communities of Flagler Beach,
Bunnell, and Flagler County,
Florida

Robert G. Holman of
The Denver Group, Inc.
represented the sellers in this transaction.

THE DENVER GROUP INC.
252 Clayton, Suite 300
Denver, Colorado 80206
(303) 399-5224

Those dogs, however, have turned into cats, said Tow, as cash flow margins have improved from 27 percent at the time of the acquisition to more than 50 percent today. These systems, which serve "the high-rent district in L.A.," have the potential of becoming the best performers among Century's holdings, said Tow.

In its presentation, Comcast touted the superior performance of several of its major recent acquisitions. For example, the Indianapolis cable system, which the company bought from the local power company, has seen cash flows increase 51 percent in the last year. Cash flow growth in the Group W cable systems has been averaging 33 percent a year, said Brian Roberts, executive vice president.

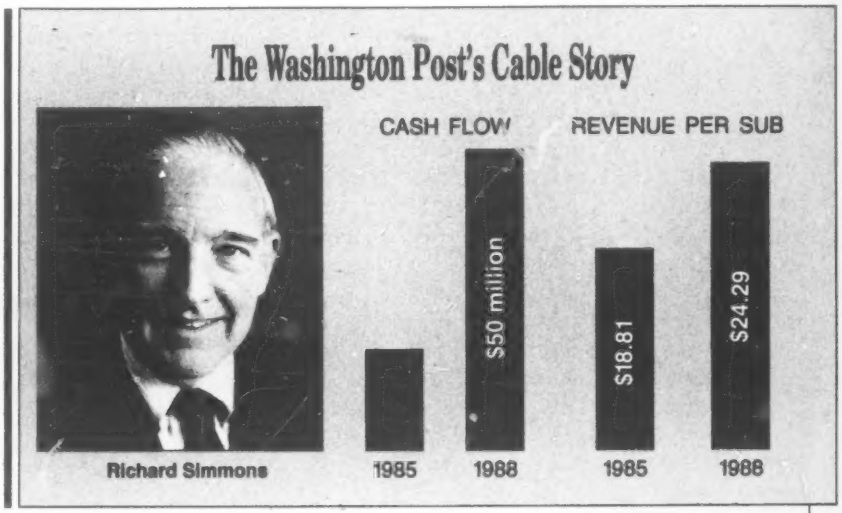
Meanwhile, the company has a major growth component in its Philadelphia newbuild, where penetration rates are averaging 40 percent and average revenue per subscriber is $33.95. The system will be breakeven on a cash flow basis before interest this year.

"We love cable. The results are fabulous," said Roberts, the son of chairman Ralph Roberts. "Every piece of our business is growing."

Several operators pointed to pay-per-view as a major new revenue source for themselves. "It is the equivalent to a foundation pay service. It's a big deal," said Brodsky. Every house the company is hooking up in Philadelphia will have the ability to order impulse pay-per-view, he noted. The Washington Post's Simmons also heralded the coming of pay-per-view. By the end of next year the percentage of addressable households in Post systems will have risen more than 80 percent, he indicated.

Driving the favorable financial statistics in what Brodsky termed "a self-fulfilling future" is better programming. The better the programming, the more subscribers will sign up, the higher rates operators can charge, the more advertising revenues come in, the more operators can pay for better programming.

Meanwhile, the broadcast networks will continue to lose viewer-



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$4,000,000
Secured Senior Debt
and
$1,800,000
Partnership Capital
has been arranged for
PACIFIC SUN CABLE PARTNERS
an affiliated company of
SUN COUNTRY CABLE, INC.

The undersigned acted as financial advisor
to Pacific Sun Cable Partners in this transaction.

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ASSOCIATES
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ship, while cable will continue to gain, which means that there will be even less reliance on broadcast product. That will make syndicated exclusivity and the compulsory license less important, said Brodsky.

One of the most interesting developments in the programming field is the new issue of high-profile sports on cable systems. Several operators noted that the recent multi-million agreement signed by Madison Square Garden Network with the Yankees brings up the question of whether the entire subscriber base should help pay for that contract. As several operators noted, sports fans are still a minority of cable subscribers, even if they are highly vocal, which may make the migration of sports onto pay and pay-per-view tiers a good possibility.

In general, media executives played down the threat posed by the telephone companies. While Tony Cox, president of Showtime Networks, Inc., noted that as a programmer it does not really matter who delivers cable programming to consumers, he said in the end "cable will continue to be the dominant player in the delivery of entertainment and information."

Brodsky underlined and expanded that assessment by saying that no matter which technology becomes the dominant delivery mechanism for cable programming, companies such as Comcast intend to deliver that technology. He said that the company was at this time trying to buy satellite capacity. "We're in the video distribution business," he said. "We'll do what it takes" to maintain that position."

Brodsky and others also downplayed the telephone company threat. "What are they going to compete with?" he asked the analysts, implying that it would be extremely difficult to develop new networks and programming services at this point.

Cox summed up the mood of the companies with cable interests by noting they are "quietly bullish" about the business. They are quiet because the barbs coming out of Washington about competition and growing financial clout will make it wise to be circumspect.

At the same time, said Cox, the fundamentals of the business remain "quite solid and the trends toward future growth are quite good." The interest of the telcos and the broadcasters in getting into cable attest to those facts. ■

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Jeffrey P. Kramp of
The Denver Group, Inc.
served as financial advisor and
assisted in the negotiations.

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CABLE STATS

Subscriber Count

Satellite national services

Basic services	Affiliates	Subscribers
ACTS Satellite Network	365	8,000,000
Alternate View Network	250	4,000,000
Arts & Entertainment (A&E)	2,800	37,000,000
Black Entertainment Television	1,200	20,000,000
Cable News Network	11,860	46,238,000
Cable Value Network	1,850	20,000,000
CBN Family Channel	8,215	41,642,000
C-SPAN	3,014	39,200,000
C-SPAN II	539	15,400,000
Country Music Television	862	8,000,000
The Discovery Channel	3,567	35,800,000
Eco	300	1,000,000
ESPN	9,500	47,800,000
Eternal Word Television Network	461	10,100,000
Family Guide Network	60	4,500,000
FamilyNet	47	1,200,000
The Fashion Channel	600	10,100,000
Financial News Network	3,500	33,000,000
FNN/Score	1,150	19,800,000
FNN/TelShop	950	11,000,000
Headline News	3,228	32,693,000
Home Shopping Network	1,413	16,074,151
Home Shopping Network II	321	5,699,732
The Inspirational Network	936	10,500,000
International Television Network	56	7,868,900
The Learning Channel	930	12,800,000
Lifetime	3,600	40,800,000
Mind Extension University	84	2,200,000
Movietime	200	7,500,000
MTV	5,010	44,000,000
The Nashville Network	7,335	41,051,392
Network 1 USOA	N.A.	N.A.
Nick At Nite	3,285	39,000,000
Nickelodeon	6,195	43,000,000
The Nostalgia Channel	290	3,500,000
Prevue Guide	200	5,300,000
QVC Network	931	12,600,000
RFD TV	N.A.	N.A.
Shop Television Network	119	4,600,000
Silent Network	400	12,000,000
Superstation TBS	8,171	45,718,000
Tempo Television	700	8,000,000
TNT	1,279	17,040,000
The Travel Channel	300	11,000,000
Trinity Broadcasting Network	650	8,000,000
Univision	340	N.A.
USA Network	10,100	45,200,000
VH-1	2,140	31,000,000
Vision Interfaith Satellite Network	N.A.	6,200,000
The Weather Channel	3,240	36,100,000
WGN-TV	11,000	24,900,000
WWOR-TV	2,499	12,302,073
WPIX-TV	858	9,678,474
Bonus/basic services		
American Movie Classics	1,500	13,000,000
Bravo	350	1,300,000
Pay services		
American Exxxtasy	35	27,000
Cinemax	3,650	5,700,000
The Disney Channel	5,000	3,810,000
Home Box Office	7,400	15,900,000
The Movie Channel	3,250	2,600,000
The Playboy Channel	550	490,000
Showtime	6,000	6,300,000
Audio services		
Cable Radio Network	49	1,556,736
Galatic Radio	84	1,050,000
KKGO Super Jazz	18	133,639
Moody Bible Institute	63	1,058,368
Satellite Radio Network	237	483,000
Seeburg Lifestyle Music	142	2,578,838
Seeburg Lifestyle Adult Contemporary	26	354,398
Tempo Sound	125	1,250,000
WFMT Chicago	170	1,259,804
Text services		
AP News Cable	185	2,500,000
AP Business Plus	54	1,400,000
AP News Plus	75	2,100,000
Cable SportsTracker	41	875,000
EPG	280	6,800,000
EPG Jr.	330	300,000
Genesis Storytime	39	1,550,000
Reuters NewsView	127	2,437,000
Computer services		
DBC/MarketWatch	462	9,200,000
X*Press Executive	457	6,100,000
X*Press X*Change	457	6,100,000

Non satellite-fed national services

Basic services	Affiliates	Subscribers
Cable Video Entertainment	190	18,000,000
Fuji Network	3	12,000
Nippon Golden Network	3	13,000
Vector Consumer News	5	200,000
Vector Consumer Shopping Guide	9	325,000

Interactive services

Basic services	Affiliates	Subscribers
Telaction	4	30,000
Video Jukebox Network	9	268,000

Regional services

Basic services	Affiliates	Subscribers
Atlanta Interfaith	7	177,000
Bay Area Religious Channel	6	113,000
Buffalo Sabres Hockey	6	455,000
Cable TV Network of New Jersey	34	1,396,451
The Ecumenical Channel	9	170,000
KBL Entertainment Network	67	1,000,000
KTVT	415	3,588,270
Life Newsvision	35	50,000
Madison Square Garden Network	112	2,500,000
Meadows Racing Network	14	600,000
News 12 Long Island	4	532,000
Prime Cable	9	381,938
Prime Sports Network	N.A.	N.A.
Prime Ticket	55	3,000,000
Sportsvision	50	1,507,270
Sunshine Network	112	1,700,000
Pay services		
Home Sports Entertainment	196	684,740
Home Team Sports	114	1,000,000
New England Sports Network	160	301,131
Prism	87	427,000
Pro-Am Sports	140	301,000
SportsChannel (Florida)	10	470,000
SportsChannel (New England)	147	942,943
SportsChannel (New York)	94	1,300,000
Z Channel	65	110,010

Note: Figures for affiliate subscriber counts will be updated quarterly unless information is provided by the service. Send information to: CableVision, Cable Stats, 432 Park Avenue South, Suite 1010, New York, NY 10016.
N/A denotes information not available.

Announced services

Satellite-fed services	Expected launch
ATV: Advertising Television	1/89
CD/8: The Digital Music Network	6/89
CNBC	4/89
The Computer Channel	5/89
Digital Cable Radio	1st Quarter 1989
Digital Radio Labs	1st Quarter 1989
Interactive Game Network	3rd Quarter 1989
Kids Information Network	1st Quarter 1989
The Landscape Channel	1st Quarter 1989
Laugh TV	1st Quarter 1989
Maximum Entertainment Network	9/89
Mizlou Cable Sports Network	4/89
Spanish TV News Network	1/89
Talk Television	1st Quarter 1989
Wingtips	4th Quarter 1989
Non satellite-fed services	**Expected launch**
ACTV	4th Quarter 1989
Consumer Classified Ad Network	1st Quarter 1989
Main Street	2nd Quarter 1989
On Demand/U TV TV Network	4th Quarter 1989